

Message Text

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ORIGIN EB-08

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FM SECSTATE WASHDC
TO AMEMBASSY JAKARTA

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E.O. 11652: N/A

TAGS: ENRG, ID

SUBJECT: PRESS REPORTS OF POSSIBLE US OIL TARIFFS OR QUOTAS
ON WEST COAST OIL IMPORTS

1. WITH REGARD TO PRESS REPORTS SPECULATING ABOUT POSSIBLE
ACTIONS US GOVERNMENT COULD TAKE TO DEAL WITH CURRENT
SURPLUS OF CRUDE OIL AND RESIDUAL FUEL OIL ON WEST COAST,
EMBASSY MAY BE INTERESTED IN FOLLOWING EXCERPTS FROM PRESS
CONFERENCE HELD BY SECRETARY SCHLESINGER MAY 26.

2. BEGIN EXCERPTS: "WITH REGARD TO THE SECOND PART OF YOUR
QUESTION, THE CONDITIONS ON THE WEST COAST, THE SURPLUS ON
THE WEST COAST, THAT SURPLUS, OF COURSE, REFLECTS THE
OPENING UP OF NEW PRODUCING FIELDS IN ALASKA FOR WHICH
THERE WAS NO EXISTING LOGISTICAL SYSTEM TO MOVE THE OIL TO
THE POINT OF USE. THE WEST COAST REFINERIES CURRENTLY
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ABLE TO PROCESS ALASKAN OIL REPRESENT ONLY ABOUT 650,000
BARRELS PER DAY CAPACITY OUT OF A TOTAL CAPACITY OF 2.9
MILLION BARRELS A DAY. CONSEQUENTLY, THERE WAS BOUND
TO BE A BUILDUP ON THE WEST COAST, GIVEN TWO FACTS, THAT
INDEED THE DECISION WAS MADE THAT THE PIPELINE RUN DOWN TO
VALDEZ IN THE ABSENCE OF OTHER MEANS OF TRANSPORTATION OF
THAT OIL TO THE POINT OF USE, AND SECONDLY, A DECISION BY

THE CONGRESS THAT NONE OF THE CRUDE OIL TO BE PRODUCED IN ALASKA SHOULD BE EXPORTED.

"THOSE WERE INGREDIENTS THAT INEVITABLY LED TO AN EXCESS AVAILABILITY OF OIL IN THOSE LIMITED MARKETS. THAT HAS BEEN COMPOUNDED BY THE FACT THAT ALASKAN CRUDE IS HIGH SULFUR CONTENT CRUDE, AND THAT RECENT CHANGES IN CALIFORNIA CLEAN AIR QUALITY CONTROL MEASURES HAVE REDUCED THE PERMITTED SULFUR CONTENT IN FUEL BURNED AROUND THE STATE FROM ONE HALF A PERCENT TO ONE QUARTER OF A PERCENT; WHILE ALASKAN CRUDE COULD BE USED GENERALLY UNDER THE OLD CONTROL MEASURE OF ONE HALF A PERCENT, IT CANNOT BE AT ONE QUARTER PERCENT WITHOUT THE EXPANSION OF DESULFURIZATION EQUIPMENT WHICH WOULD ADD SUBSTANTIALLY TO THE PRICE PER BARREL OF OIL IN CALIFORNIA.

"AS A CONSEQUENCE, WE CONTINUE TO IMPORT INTO THIS MARKET IN WHICH WE HAVE ACQUIRED SOME DEGREE OF CONGESTION, SUBSTANTIAL QUANTITIES OF SWEET CRUDE, NOTABLY FROM INDONESIA TO BE MIXED WITH THE DOMESTICALLY-PRODUCED CRUDE. I THINK THAT IT IS A COMBINATION, THEREFORE, OF ALL OF THESE ELEMENTS THAT HAVE LED TO THE PROBLEM. THERE WOULD HAVE BEEN A PROBLEM IN ANY EVENT BECAUSE THE WEST COAST CAPACITY IS INSUFFICIENT TO ABSORB ALL OF THE FLOW FROM ALASKA, BUT IT HAS BEEN COMPOUNDED BY THE RESTRICTION PLACED UPON THE EXPORT OF CRUDE, AND BY THE POLLUTION CONTROL REQUIREMENTS.

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"IT HAS ALSO BEEN COMPOUNDED BY OUR SLOW APPROACH TO PROVIDING THE NECESSARY TRANSPORTATION FACILITIES TO THE INTERIOR OF THE COUNTRY. AS YOU KNOW, THE SOHIO PROPOSAL TO MOVE OVER THE EL PASO LINE, WHILE VERY SLOW TO FRUITION IN TERMS OF AGREEMENT, THAT AGREEMENT HAS NOT YET BEEN CONSUMMATED. AFTER AGREEMENT, IT WILL TAKE 18 MONTHS AT LEAST TO ALLEVIATE THE SURPLUS ON THE WEST COAST, AND THAT PIPELINE BY ITSELF CANNOT MOVE ALL OF THE OIL THAT WILL BE PRODUCED ON THE WEST COAST TO THE INTERIOR OF THE COUNTRY. IT WILL BE NECESSARY TO HAVE AN ADDITIONAL PIPELINE, AND AS YOU KNOW, THE LEGISLATION, THE NATURAL GAS ACT, INCLUDES PROVISIONS OF AN EXPEDITED MEANS FOR REACHING A DECISION ON THAT ADDITIONAL PIPELINE.

"THE LEGISLATION WILL PASS, BUT IT WILL BE SOME YEARS DOWN THE ROAD BEFORE WE HAVE THE NECESSARY TRANSPORTATION FACILITIES. WE ARE CONSIDERING A VARIETY OF TECHNIQUES, INCLUDING ADJUSTMENTS OF THE ENTITLEMENTS PROGRAM, AND POSSIBLY THE LIMITED EXPORTATION OF RESID. THOSE ARE UNDER ACTIVE CONSIDERATION AT THE PRESENT TIME, AND WE HOPE TO ANNOUNCE A SOLUTION SHORTLY. THAT SOLUTION, HOWEVER, CAN ONLY ALLEVIATE THE PROBLEM THAT IS REPRESENTED BY AN AB-

SENCE OF ADEQUATE TRANSPORTATION FACILITIES, AS COMPOUNDED
BY THE RESTRICTION ON THE EXPORT OF CRUDE. IT LEADS TO A
VERY IMBALANCED LOGISTICAL SYSTEM." VANCE

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